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G-7 to Warn China Over Costly Loans To Poor Countries

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WASHINGTON -- The U.S. and its major allies are warning China not to overload poor countries in Africa and elsewhere with high-priced loans they can ill afford to repay.

Top economic officials from the Group of Seven nations plan to meet Saturday in Singapore, where they are expected to issue a statement that, among other things, criticizes China and other big developing countries for promoting exports to their poorer brethren by providing expensive trade financing, according to Timothy Adams, U.S. Treasury undersecretary for international affairs.

The G-7 finds the practice especially troubling because last year, under pressure from antipoverty campaigners, they arranged for the World Bank, International Monetary Fund and African Development Fund to write off as much as $60 billion in loans to as many as 42 of the world's poorest countries. Once free of debt repayments, the beneficiary countries were supposed to have more to spend on health, education and other poverty-fighting programs.

Now some of those same countries, such as Rwanda and Ghana, are again flirting with heavy indebtedness -- meaning that Western countries are paying to clean up their balance sheets only to have emerging lenders swoop in and turn a profit with new loans.

"There are some aggressive countries out there that are ramping up their export-credit agencies and looking to take advantage of countries with lightened balance sheets," Mr. Adams said in an interview. "We want to send a strong signal that those kinds of behaviors will be frowned upon," he added.

While the G-7 -- the U.S., Britain, Japan, France, Italy, Germany and Canada -- may not identify the offending lenders by name this weekend, the message would be directed at China, with India next on the list.

Treasury Secretary Henry Paulson plans to visit China next week, his first trip to the country since he assumed the mantle of U.S. international economic policy. The trip is likely to be watched by manufacturers, unions and lawmakers who accuse Beijing of a variety of economic misdeeds, such as tolerating copyright piracy and manipulating its currency to gain an unfair trade advantage.

Bush administration officials have raised concerns about excessive lending with the Chinese government, but haven't received any assurance that the practice will cease. A Chinese Embassy spokesman in Washington had no comment.

Li Ruogu, chairman of the state-owned Export-Import Bank of China, wrote in the bank's most recent annual report that its activities have helped developing countries "build a series of key projects with favorable social and economic returns."

With the Paulson visit around the corner, the Treasury Department plans to release a paper today outlining concerns that several beneficiaries of debt relief are again slipping into debt trouble -- and pointing the finger at China as the leading culprit among "rogue creditors" practicing "opportunistic lending."

"These lenders have been termed 'free riders' because they indirectly obtain financial gain from international debt forgiveness and grant assistance -- through improved country repayment prospects -- without paying for it," says the paper, written by a team headed by Ben Leo, a former Treasury official now at the National Security Council.

While the paper isn't an official Bush policy statement, it does reflect the thinking inside Treasury.

The paper highlighted several cases:

• China has agreed to provide $500 million to finance a dam in Ghana, a country that is receiving $8 billion in debt relief. The write-off would leave the country with a debt-to-export ratio of just 30%. But new borrowing from China and elsewhere is likely to drive that back up to 150% as early as 2010, the paper said.

• The China Exim Bank is providing $2.3 billion in financing for a dam in Mozambique.

• China lent $814 million at commercial rates to Sudan, a heavily indebted country, although not one that benefited from the most recent round of debt cancellation.

• China has committed to providing developing countries with $10 billion in low-priced loans and commercial-rate export credits over three years.

• India has promised West African countries $500 million in trade finance.

The G-7 isn't discussing retaliatory steps at this point, according to Mr. Adams. Instead, the big powers hope to use moral suasion and peer pressure to persuade emerging lenders not to overburden poor countries with loans.

The World Bank itself is considering steps to prevent a new wave of indebtedness. Among other possible actions, the bank may penalize borrowers by shortening the repayment period on its own bargain-rate loans if they take on excessive commercial-rate debts.

The antipoverty activists who stirred up support for debt relief in the West in the 1990s are watching with alarm as some beneficiaries slip back into debt. Jamie Drummond, executive director of Debt AIDS Trade Africa, the advocacy group founded by Irish rocker Bono, says the problem is that many rich nations are falling behind on last year's promise to double aid to Africa -- to $50 billion a year -- by 2010.

"Part of the reason these countries are getting back into debt is they need sources of capital, and they made promises to their own people," Mr. Drummond said. "Of course they're going to borrow more money if we don't provide the aid.

"The Treasury is right to be concerned about this, but Treasury has got to see the whole picture," he added.

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